

April 20, 2012

BY COURIER (2 COPIES) AND EMAIL

Ms. Kirsten Walli

Board Secretary, Ontario Energy Board

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Dear Ms. Walli:

**Re: Pollution Probe – Written Comments
Renewed Regulatory Framework for Electricity
EB-2010-0377, EB-2010-0378, EB-2010-0379, EB-2011-0043, &
EB-2011-0004**

I am writing to provide Pollution Probe's comments regarding the development of the Renewed Regulatory Framework for Electricity. These comments address a number of the issues identified by the Ontario Energy Board (the "Board") in Attachment A of your letter of April 5, 2012, particularly in relation to topic of planning and incentives.

At a macro level, Pollution Probe believes that the new framework should ensure that all demand reduction options will be pursued where they are reliable, feasible, and more cost-effective than the supply-side alternatives. This would minimize total costs to consumers by avoiding unnecessarily costly increases to supply-side capacity.

General Issues for Stakeholder Comment

What is your vision for a sustainable and long-term regulatory regime?

A sustainable regulatory regime that will ensure that the energy service needs of Ontario's consumers (e.g., a warm house and a cold beer) are met at the lowest possible total cost.

What changes would be needed to evolve planning, mitigation, and performance policies towards your vision?

The current framework is biased in favour of relatively high-cost energy supply options at the expense of much lower-cost energy conservation and demand management ("CDM")

options.¹ We need a new framework that will ensure that our electric utilities will pursue all CDM options that are reliable, feasible and cost-effective before they make incremental expenditures to increase their supply-side capacity (MW). In other words, supply-side expenditures should not be approved where less expensive (but equally reliable and feasible) demand reduction options are available.

As a means of representing the Board's vision for the regulatory framework, Board staff prepared a strawman that summarized the key elements of the regulatory framework. In providing their comments on the issues the Board would be assisted if stakeholders also provided comments in relation to this vision.

With great respect, the strawman model framework focuses too heavily on supply-side solutions at the expense of more cost-effective demand-side alternatives. The underlying objective of the model appears to be the delivery of more electricity to Ontario's consumers at the lowest possible cost. Pollution Probe believes this is the wrong question to ask since it is not more energy commodities, such as electricity or natural gas, that consumers demand. Rather, it is energy services that consumers demand, such as light and heating, because these services facilitate the amenities that people truly value, such as comfort, enjoyment and security. Pollution Probe's *Primer on Energy Systems in Canada* visualizes this important distinction on pages 13-17.²

To meet our energy service needs at the lowest possible costs, one must compare the relative costs of meeting these needs by supply-side and demand-side options, and then choose the lowest cost option.

CDM programs have the potential to meet our energy service needs at a much lower cost than new peak day electricity supply-side infrastructure spending. If the Board is to fulfill its consumer protection mandate then it must always ask: could CDM meet the consumers' energy service needs at a lower cost? And if the answer is "yes," then it should not approve a utilities' request for wasteful supply-side spending.

CDM programs are so cost-effective because they can reduce peak demand and the high associated costs. The two main drivers of a utility's capital budget are its peak demand and its number of customers. CDM can't reduce a utility's customer-related costs, but it does have the potential to dramatically reduce a utility's peak demand.

Ontario's demand for electricity peaks on about a dozen very hot summer afternoons when our air conditioners are running full-out. During these peaks, our demand for electricity is up to 50% higher than our annual average hourly demand. The cost of supplying electricity during these peaks is very high for two reasons. First, we have to build expensive electricity supply-side infrastructure that is just used for 1% of the year or less. Second, our

¹ See, for example, Ontario Clean Air Alliance, *An Energy Efficiency Strategy for Ontario's Homes, Buildings, and Industries* (October 2011) at pgs. 28-31

² Pollution Probe, *Primer on Energy Systems in Canada*, January 2011, pages 13 to 17 (http://www.pollutionprobe.org/energy/energyliteracy/energy_primer.asp)

transmission and distribution losses are much higher on extreme demand days. CDM helps avoid those high costs.

Dr. Kaufmann's report describes some of these cost-saving benefits of CDM as follows:

“As discussed, transmission and distribution (and power generation) infrastructure must all be sized to accommodate peak demands, so reducing peak usage will tend to defer the need for “traditional” energy infrastructure investments. Pushing energy investments into the future saves costs and also increases the probability that R&D devoted to cleaner generation technologies will have come to fruition and can be used when investments are ultimately required. **Effective CDM can therefore contribute to a cleaner and lower-cost efficient energy supply and delivery system both now and in the future.**”³

The strawman framework focuses to heavily on supply-side solutions. The Board's new framework should instead ensure that lower-cost demand reduction options are pursued whenever possible.

Performance and Incentive Issues (EB-2010-0379)

What outcomes for customer service and company cost performance should be established?

The primary outcome should be sustainably meeting customers' energy service needs at the lowest overall cost.

What standards and metrics for customer service and company cost performance should be established in regard to these outcomes?

All utilities should be required to report annually on:

- a) Their cumulative kWh saved per dollar of CDM expenditures by major customer groups (e.g., residential, commercial/institutional, industrial);
- b) Their kW saved per dollar of CDM expenditures by major customer groups and the persistency of these savings over time;
- c) The total lifetime KWh savings of their CDM programs in absolute numbers and as a percentage of their total delivery volumes by major customer groups; and
- d) The total kW savings of their CDM programs and the persistency of these savings over time, in absolute numbers and as a percentage of their total kW demands by major customer groups.

These metrics would measure the cost-effectiveness of a utility's CDM programs, and could be used to quantify the overall cost savings for customers.

³ Pacific Economics Group Research, *Defining, Measuring and Evaluating the Performance of Ontario Electricity Networks: A Concept Paper, Report to the Ontario Energy Board* (April 2011) at pg. 19.

What are the characteristics of a “high-performing regulated entity” (i.e., what specific measures can be used to evaluate the level of performance of the regulated entity)?

The Board should rank each of Ontario’s utilities according to the above-noted CDM metrics and deem those with the best results to be “high-performing.” This ranking would reflect the utilities’ relative success in achieving cost-savings for customers.

What incentives, if any, are appropriate to reward utilities for cost-effective and excellent performance, including appropriate rewards for exceeding standards for customer service, and company cost performance?

The Board should ensure that the achievement of all the feasible, reliable and cost-effective CDM opportunities is always the most profitable course of action for a utility.

How might the Board enhance the alignment of customer and company interests through the use of incentive mechanisms?

There should be no cap on a utility’s incentive for saving additional kWh or kW cost-effectively. In that way, it will always be in the utility’s interest to decrease customer bills through demand reduction.

In addition, the Ontario Power Authority’s CDM profit incentive, which rewards the utilities for under-spending their CDM budgets even if they fail to achieve their minimum CDM targets established by the Board, should be abolished. The OPA’s profit incentive encourages utilities to spend less than the optimal amount on CDM programs, contrary to the interests of their customers.

Conclusion

Pollution Probe believes that the new framework should ensure that all demand reduction options will be pursued where they are reliable, feasible, and more cost-effective than the supply-side alternatives. This would minimize total costs to consumers by avoiding unnecessarily costly increases to supply-side capacity.

Yours truly,



Kent Elson